

Message Text

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ACTION ARA-14

INFO OCT-01 IO-13 ISO-00 PM-05 NSC-05 SP-02 SS-15
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C O N F I D E N T I A L GEORGETOWN 0199

E.O. 11652: XGDS-4
TAGS: GY, EAID
SUBJECT: LIMITED FOREIGN EXCHANGE ASSISTANCE FOR GUYANA

REF: (A) 77 GEORGETOWN 3354, (B) 77 GEORGETOWN 2350,
 (C) 77 GEORGETOWN 3282 (D) 77 GEORGETOWN 829

1. BEGIN SUMMARY: GUYANA RECENTLY HAS OBTAINED OR IS IN THE
PROCESS OF OBTAINING CREDITS OR SHORT-TERM CASH LOANS, INCLUD-
ING US PL 480, AMOUNTING TO A TOTAL OF ABOUT US \$20 MILLION.
AS THIS AMOUNT DOES NOT BEGIN TO PULL GUYANA OUT OF ITS
FOREIGN EXCHANGE CRISIS, AN AGREEMENT WITH THE IMF IS VITAL,
ACCORDING TO A HIGH LEVEL OFFICER OF THE BANK OF GUYANA. THE
VALUE OF THE REMAINING IMF TRANCHES APPEARS TO BE SOMEWHERE
BETWEEN 20-25 MILLION SDR. REPORTEDLY THE IMF TALKS ARE HUNG
UP ON IMF INSISTENCE ON ISSUES OF DEVALUTATION, REMOVAL OF
IMPORT LICENSING RESTRICTIONS, AND ON THE BANK SETTING ASIDE
A LARGE PORTION OF FOREIGN EXCHANGE FOR CLEARING PAY-
MENTS NOW IN ARREARS. DISCUSSIONS ARE UNDERWAY WITH
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MANUFACTURERS HANOVER TRUST TO OBTAIN PRIVATE BANK
CREDIT ONCE IMF AGREEMENT IS REACHED. END SUMMARY.

1. DURING CONVERSATION WITH DCM JAN 4, FOREIGN MINISTER
WILLS OUTLINED ASSISTANCE THAT GUYANA HAD RECEIVED OR
WOULD SOON RECEIVE AND WHICH WOULD BE OF SOME HELP IN
GUYANA'S RELIEVING FOREIGN EXCHANGE CRISIS. SOURCES

AND AMOUNTS ARE:

- A. VENEZUELA--US\$10 MILLION LOAN FOR 6 MONTH PERIOD. MONEY WAS MADE AVAILABLE BEFORE END OF DECEMBER 1977 (SEE REFA).
- B. LIBYA--US\$5 MILLION LOAN. THIS WAS NEGOTIATED IN JUNE 1977 BUT LIBYANS DID NOT RATIFY AGREEMENT UNTIL JAN 3, 1978. THE AGREEMENT ALSO PROVIDES FOR JOINT VENTURES INVOLVING LIBYAN INVESTMENT IN AGRICULTURAL AND FISHING ENTERPRISES.
- C. SOVIET UNION: THE SOVIET AMBASSADOR INFORMED WILLS JAN 4 THAT HIS GOVERNMENT WOULD PAY CASH IN ADVANCE FOR THE ALUMINA IT HAD AGREED TO BUY (SEE REF C). THIS WOULD AMOUNT TO ABOUT US\$3.2 MILLION. ORIGINALLY THEY WERE TO PAY BY EXTENDING EXPORT CREDITS TO GUYANA.
- D. UNITED STATES: THE US PL 480 ASSISTANCE OF ABOUT US \$2 MILLION.

2. WILLS SAID THAT GOG LEADERS HAD JUST ABOUT CONCLUDED THAT THE LIBYAN GOVERNMENT WOULD NOT CARRY OUT THEIR AGREEMENT--MADE DURING WILLS' VISIT LAST JUNE-- TO LOAN GUYANA US\$5 MILLION. HE ATTRIBUTED THEIR POSITIVE ACTION NOW TO THEIR FEARS THAT THEY WERE BEING DIPLOMATICALLY OUTGAFLED BY EGYPT. AS FOR THE SOVIETS, WILLS SPECULATED THAT SINCE THE SUGAR STRIKE HAD BEEN A POLITICAL FAILURE FOR CHEDDI JAGAN--AND INDIRECTLY FOR THE SOVIETS--THE RUSSIANS WOULD NOW TRY TO IMPROVE THEIR RELATION WITH THE GOG.

3. WILLS COMMENTED THAT THE TOTAL OF THE LOANS WAS IN-CONFIDENTIAL

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SUFFICIENT TO TIDE GUYANA OVER THE CURRENT FOREIGN EXCHANGE CRISIS. CLARENCE ELLIS, DEPUTY DIRECTOR OF THE BANK OF GUYANA, CONFIRMED TO EMBASSY ECON OFFICER THAT EXTERNAL BILATERAL ASSISTANCE MADE AVAILABLE SO FAR IS INADEQUATE TO MEET GUYANA'S BOP NEEDS DURING 1978 AND THAT HE VIEWED SUCCESSFUL CONCLUSION OF CURRENT IMF NEGOTIATIONS AS THE SINE QUA NON FOR DEALING WITH THE FOREIGN EXCHANGE CRISIS AS WELL AS A "PACKAGE OF WORLD BANK CREDITS" TO COVER DEVELOPMENT NEEDS. HE SAID THAT GOG IS ASKING FOR A THREE YEAR PROGRAM, WHICH INCLUDES DRAWING DOWN ITS REMAINING THREE QUOTAS. HE SAID UNDER THE "JAMAICA AGREEMENT" EACH QUOTA IS WORTH 7.5 MILLION SDRS UNDER A TEMPORARY MEASURE WIDENING TRANCHES BY 45 PERCENT, BUT THAT ONCE GUYANA'S PRESENT QUOTA IS EXPANDED FROM 20 TO 25 MILLION, THE VALUE OF EACH TRANCHE MAY WELL BE REDUCED TO 6.2 MILLION SDRS.

4. IN ADDITION, ELLIS SPECULATED THAT THE GOG PROBABLY WILL HAVE ACCESS TO SUPPLEMENTARY IMF FACILITIES, AS WELL AS FOREIGN COMMERCIAL BANK CONSORTIUM CREDITS, ONCE A STAND-BY AGREEMENT IS NEGOTIATED. HE ADDED THAT DISCUSSIONS WITH MANUFACTURERS HANOVER TRUST HAD TAKEN

PLACE AND THAT FOREIGN BANK CREDITS WOULD BE FAVORED BECAUSE OF THEIR "FLEXIBILITY", ALTHOUGH HE WAS UNABLE TO SPECIFY AMOUNTS WHICH MIGHT BE FORTHCOMING. HE SAID THAT CURRENT NEGOTIATIONS WITH THE IMF SEEM TO BE TURNING ON THE ISSUES OF DEVALUATION, WHICH THE GOG OPPOSES, AND THE IMF'S SEEMINGLY ODD INSISTENCE THAT IMPORT LICENSING RESTRICTIONS BE RELAXED, AND THAT A LARGE PORTION OF THE FOREIGN EXCHANGE WHICH IS OBTAINED BE EARMARKED FOR CLEARING THE COUNTRY'S ARREARS, VARIOUSLY ESTIMATED BY BUSINESS SOURCES AT BETWEEN G\$85 AND \$150 MILLION (US\$33.4-58.9).

4. COMMENT: ALTHOUGH BOTH WILLS AND ELLIS HAVE STRESSED THAT THE BILATERAL BOP ASSISTANCE OBTAINED SO FAR IS CONFIDENTIAL

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INADEQUATE TO COVER GUYANA'S FOREIGN EXCHANGE NEEDS, NEITHER VENTURED AN ESTIMATE OF THE TOTAL BOP SUPPORT REQUIRED. IN APRIL 1977, WILLS MENTIONED TO DCM THAT US \$100-150 MILLION WAS NEEDED TO MEET DEBT OBLIGATION AND NORMAL EXPEDITURES DURING 1977 (SEE REF D). SINCE THEN, LOCAL PRESS REPORTS THAT THE COUNTRY HAS SUSTAINED AN ADDITIONAL G\$80 MILLION (US\$31.4 MILLION) SHORTFALL IN FOREIGN EXCHANGE EARNINGS AS A RESULT OF 135 DAY SUGAR STRIKE, WHICH REDUCED PRODUCTION FROM A TARGETED 322,000 TO AN ACTUAL 242,000 TONS. FURTHER, THE BAUXITE INDUSTRY SUFFERED REVERSES DURING THE SECOND HALF OF 1977 BECAUSE OF DEPRESSED WORLD MARKET CONDITIONS FOR CALCINED BAUXITE.
BURKE

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